

*Cancorp*

# *Surpass Chemicals Limited*



ANNUAL REPORT

1972

# Surpass

## Chemicals Limited

### Directors

FRED W. EVANS	-	-	-	-	-	-	-	-	Toronto, Ontario
ELLIS A. CLARKE	-	-	-	-	-	-	-	-	Toronto, Ontario
GEORGE H. MONTAGUE	-	-	-	-	-	-	-	-	Toronto, Ontario
WILLIAM BLOKHUIS	-	-	-	-	-	-	-	-	Toronto, Ontario
DONALD M. TREADGOLD, Q.C.	-	-	-	-	-	-	-	-	Toronto, Ontario
KENNETH EASTMAN	-	-	-	-	-	-	-	-	Toronto, Ontario

### Officers

FRED W. EVANS	-	-	-	-	President and General Manager
ELLIS A. CLARKE, C.A.	-	-	-	-	Vice-President and Secretary Treasurer

### Transfer Agents and Registrars

GUARANTY TRUST COMPANY OF CANADA,  
88 University Ave.,  
Toronto, Ontario.

### Auditors

MESSRS. THORNE GUNN & CO.,  
Box 262, Toronto-Dominion Centre,  
Toronto 111, Ontario.

### Bankers

TORONTO-DOMINION BANK,  
1900 Ellesmere Road,  
Scarborough, Ontario.

### Solicitors

BLACKWELL, LAW, TREADGOLD AND ARMSTRONG,  
110 Yonge Street,  
Toronto, Ontario.

### Head Office and Plant

36 Upton Road,  
Scarborough, Ontario.

### West Hill Additive Plant

10 Chemical Court,  
West Hill, Ontario.

Common shares of Surpass Chemicals Limited  
are Listed on the Toronto Stock Exchange Under  
the Symbol SUP.





# *Surpass Chemicals Limited*

## *The Company and its Products*

The Company manufactures and sells lubricants and lubricant additives. Its principal customers are major oil companies and wholesale distributors and marketers of petroleum products. A number of copyright trade names, familiar to the industry, are used to describe the Company's products, but these brand names do not appear at the retail or end-user level.

Additives account for the bulk of production. These are used mostly in oils for internal combustion engines and perform such functions as sludge dispersion, rust prevention and oxidation inhibition. Modern engine design demands performance levels in lubricants which can only be achieved through the use of additives. The field includes automotive, diesel, marine, aircraft and industrial engines.

A small scientifically oriented sales force, backed up by a continuous program of research and development, is essential for success. While the number of customers is relatively small, the number of individuals involved in a lubricant reformulation decision is sizeable, so that sales coverage must be made in depth. Furthermore, since sales are made on the basis of cost and performance, sales personnel must possess technology in both the preparation and application of additives.

Products are sold in varying concentrations and different units of measurement. It is not meaningful, therefore, to tabulate production in physical terms. The sales value, as shown on the financial statements, gives perhaps the best indication of the Company's size and growth.

Products are shipped in tank cars, drums and bulk marine shipments. For the past five years over 50% of the Company's sales were exported. Destinations include the United States, United Kingdom, Europe, Australia and Japan.



## *President's Report to Shareholders and Employees*

The trends toward lower prices and higher costs in the manufacture and sale of additives and unfavorable currency exchanges have continued through 1972. As a result, net sales at \$2,377,663 were down 8.2% and there was a net loss of \$68,034 or 9¢/share compared with a profit of \$6,009 or 1¢/share in the previous year.

World oversupply, coupled with a general reformulation away from certain metal containing additives, has depressed prices of these components to unprecedented low levels. A further contributing factor has been the government price control program in the United States where the major production originates. We are pleased to report, however, that the bottom appears to have been reached and in recent months a general firming trend in prices has developed. This should affect the company's results in the last half of 1973.

A particular source of loss in 1972 was the poor performance of sterling with respect to the dollar. At the time of devaluation in June, the Company had substantial receivables in sterling, which were instantly discounted by approximately 10%. Subsequently, the precaution of selling sterling forward has been taken to cover all sales to sterling areas. More recently, sterling has firmed and rebounded from its low.

In the area of increasing costs, two significant factors should be pointed out and emphasized; one is the cost of energy, and the other is the cost of environmental protection. Both of these have increased to a much greater extent than the other factors of production, and show signs of continuing to increase. Recognizing this trend, a considerable portion of the Company's research and development effort has been devoted to controlling these costs.





It has taken longer than anticipated to reach commercial production on the newly developed products. Progress has been made, however, and one new product is expected "on stream" during the second quarter of 1973. Another is due early in 1974. Higher profit margins should be associated with the new products.

We sincerely believe that the profit "trough" has now been passed. The first quarter of 1973 showed a small profit. Some price improvements, together with increased sales, should make the second quarter somewhat more profitable. The contribution from new products and further improvement in selling prices, should be felt in the last half of this year and should result in a respectable profit performance. The pitfalls will be rising costs and technology changes. Your management will be dedicated to the task of effective supervision and control of these factors.

I wish to take this opportunity to thank the employees and shareholders for their support during the difficult period we have been through. Hopefully the future will justify their confidence.

Respectfully submitted,

F. W. EVANS,  
President.

Toronto,  
May 22, 1973.



# Surpass Chemicals Limited

(Incorporated under the laws of the Province of Ontario)

## Balance Sheet—1972

(with comparative figures for 1971)

### ASSETS

	1972	1971
<strong>CURRENT ASSETS</strong>		
Cash .....	\$ 44,333	\$ 35,538
Accounts receivable .....	423,714	589,474
Income taxes recoverable .....	57,075	69,191
Inventories, at lower of cost and net realizable value .....	512,770	396,498
Prepaid expenses .....	14,069	12,596
	<u>1,051,961</u>	<u>1,103,297</u>
<strong>FIXED ASSETS (note 1)</strong>		
Land, buildings, machinery and equipment, at cost .....	2,797,275	2,733,165
Less accumulated depreciation .....	<u>1,250,696</u>	<u>1,094,032</u>
	<u>1,546,579</u>	<u>1,639,133</u>
<strong>ORGANIZATION EXPENSE</strong> .....	2,775	2,775
	<u>\$2,601,315</u>	<u>\$2,745,205</u>

### AUDITOR'S REPORT

To the Shareholders of  
Surpass Chemicals Limited

We have examined the balance sheet of Surpass Chemicals Limited as at March 31, 1972, and the application of funds for the year then ended. Our examination included a general review of the supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of Surpass Chemicals Limited as at March 31, 1972, and the application of its funds for the year then ended, in accordance with generally accepted accounting principles for the preceding year.

Toronto, Canada  
March 29, 1973



# icals Limited

(laws of Ontario)

December 31, 1972

(December 31, 1971)

## LIABILITIES

	1972	1971
CURRENT LIABILITIES		
Bank advances (note 2) .....	\$ 415,386	\$ 407,878
Accounts payable and accrued liabilities .....	495,397	517,061
	<u>910,783</u>	<u>924,939</u>
DEFERRED INCOME TAXES .....	<u>96,550</u>	<u>158,250</u>

## SHAREHOLDERS' EQUITY

CAPITAL STOCK		
Authorized — 1,500,000 shares of no par value		
Issued — 764,848 shares .....	1,581,159	1,581,159
RETAINED EARNINGS .....	12,823	80,857
	<u>1,593,982</u>	<u>1,662,016</u>
Long term lease (note 6)		
Approved by the Board		
F. W. EVANS, Director.		
E. A. CLARKE, Director.		
	<u>\$2,601,315</u>	<u>\$2,745,205</u>

## REPORT

December 31, 1972 and the statements of income, retained earnings and source and  
review of the accounting procedures and such tests of accounting records and other

the company as at December 31, 1972 and the results of its operations and the  
fully accepted accounting principles applied on a basis consistent with that of the

Thorne Gunn & Co.,  
Chartered Accountants.



# Surpass Chemicals Limited

## Statement of Income

Year Ended December 31, 1972  
(with comparative figures for 1971)

	1972	1971
Sales .....	\$2,523,701	\$2,648,753
Less prepaid freight .....	146,038	59,592
Net sales .....	2,377,663	2,589,161
Cost of goods sold, selling and administrative expenses .....	2,350,734	2,433,754
Operating profit before depreciation .....	26,929	155,407
Depreciation .....	156,663	143,685
Income (loss) before income taxes .....	(129,734)	11,722
Income taxes (note 3)		
Current (recoverable) .....		(52,537)
Deferred (reduction) .....	(61,700)	58,250
	(61,700)	5,713
Net income (loss) for the year .....	\$ (68,034)	\$ 6,009
Earnings (loss) per share based on 764,848 issued shares .....	(9¢)	1¢

## Statement of Retained Earnings

Year Ended December 31, 1972  
(with comparative figures for 1971)

	1972	1971
Balance at beginning of year		
As previously reported .....	\$ 66,621	\$ 60,612
Adjustment of prior year's income taxes (note 3) .....	14,236	14,236
As restated .....	80,857	74,848
Net income (loss) for the year .....	(68,034)	6,009
Balance at end of year .....	\$ 12,823	\$ 80,857





# Surpass Chemicals Limited

## *Statement of Source and Application of Funds*

Year Ended December 31, 1972  
(with comparative figures for 1971)

	1972	1971
<b>Source of funds</b>		
Operations		
Net income (loss) for the year	\$ (68,034)	\$ 6,009
Items not involving current funds		
Depreciation	156,663	143,685
Deferred income taxes	(61,700)	58,250
	26,929	207,944
Proceeds from sale of fixed assets		1,785
	26,929	209,729
<b>Application of funds</b>		
Additions to fixed assets	64,109	418,699
Decrease in working capital	37,180	208,970
Working capital at beginning of year		
As previously reported	164,122	373,092
Adjustment of prior year's income taxes (note 3)	14,236	14,236
As restated	178,358	387,328
Working capital at end of year	\$ 141,178	\$ 178,358



# Surpass Chemicals Limited

## Notes to Financial Statements

Year Ended December 31, 1972

	1972			1971
	Cost	Accumulated Depreciation	Net	Net
1. FIXED ASSETS				
Land .....	\$ 53,823		\$ 53,823	\$ 53,823
Buildings .....	290,476	\$ 62,546	227,930	242,454
Machinery and equipment .....	2,452,976	1,188,150	1,264,826	1,342,856
	<u>\$2,797,275</u>	<u>\$1,250,696</u>	<u>\$1,546,579</u>	<u>\$1,639,133</u>

### 2. BANK ADVANCES

The company has pledged accounts receivable and inventories and has given floating charge debentures as security for bank advances.

### 3. INCOME TAXES

The company reflects in earnings income taxes currently payable or recoverable and also reflects income taxes deferred by claiming capital cost allowances in amounts differing from depreciation recorded in the accounts. The accumulated total of such income tax deferments is reflected in the balance sheet as "Deferred income taxes".

Retained earnings at beginning of year and the 1971 figures have been restated to reflect a reduction of 1970 income taxes.

### 4. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The remuneration of directors and senior officers (as defined by The Business Corporations Act) amounted to \$97,808 during 1972 (\$90,470 during 1971).

### 5. FOREIGN EXCHANGE

Certain of the company's current assets and current liabilities include amounts in foreign currency. These amounts have been translated into Canadian funds at the rate of exchange prevailing at the balance sheet date.

### 6. LONG TERM LEASE

The company rents a building under a long term lease which expires August 31, 1980, the annual rental for which is \$24,017.





# Surpass Chemicals Limited

## 10 Year Comparative Summary of Income

<u>Year</u>	<u>Sales</u>	<u>Cost of goods sold, selling and administrative expenses</u>	<u>Operating Profit (loss) before depreciation and income taxes</u>	<u>Depreciation</u>	<u>Income taxes (net of reduction)</u>	<u>Net income (loss) for the year</u>
1963	\$ 617,793	\$ 622,046	\$ (4,252)	\$ 56,907		\$ (61,159)
1964	1,001,887	892,361	109,525	65,868		43,657
1965	1,076,446	967,861	108,585	68,560		40,025
1966	1,069,734	1,054,754	14,981	69,066		(54,085)
1967	1,637,137	1,467,950	169,187	90,779		78,408
1968	2,638,351	2,053,067	585,284	105,056	\$ 55,100	425,128
1969	2,637,087	2,144,739	492,348	128,415	174,500	189,433
1970	2,466,871	2,028,760	438,111	147,261	137,500	153,350
1971	2,589,161	2,433,754	155,407	143,685	5,713	6,009
1972	2,377,663	2,350,734	26,929	156,663	(61,700)	(68,034)



# *Surpass Chemicals Limited*

*Manufacturers of*

OIL ADDITIVES

LUBRICATING OILS AND GREASES

RUST PREVENTIVES

CUSTOM FORMULATIONS



Printed in Canada



AR23



# JRPASS

## CHEMICALS

### LIMITED

TELEPHONE: 751-6100

CABLE: SURCHEM

36 UPTON RD., SCARBOROUGH, ONTARIO

September 20, 1971.

Dear Shareholder,

We report herewith the unaudited results of operations for the six month period ended June 30, 1971 with comparative figures for the same period in 1970 as follows:—

	Six Months Ended June 30, 1971	June 30, 1970
Sales .....	\$1,333,724	\$1,158,019
Profit before depreciation .....	\$ 126,219	\$ 234,664
Depreciation .....	75,000	65,000
Income before income taxes .....	51,219	169,664
Provision for income taxes		
Current .....	—	51,000
Deferred .....	18,625	28,000
	18,625	79,000
Net income for the period .....	\$ 32,594	\$ 90,664
Earnings per share .....	4.3¢	11.8¢

#### STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Source of funds		
Operations		
Net income for the period .....	\$ 32,594	\$ 90,664
Items not involving current funds		
Depreciation .....	75,000	65,000
Deferred income taxes .....	18,625	28,000
	126,219	183,664
Application of funds		
Expenditures on fixed assets .....	258,157	112,573
Increase or (Decrease) in working capital position .....	(131,938)	71,091
Working capital at beginning of period .....	373,092	316,024
Working capital at end of period .....	\$ 241,154	\$ 387,115

Factors contributing to the lower earnings, in spite of higher sales volume, were new product startup difficulties, lower product prices and adverse dollar exchange rates. In addition, late deliveries of new equipment necessitated operating existing plant beyond its optimum capacity and resulted in lower yields or higher raw material consumption.

Startup problems have now been largely overcome and new production capacity completed in August. This should result in improved performance during the balance of the year.

Very truly yours,  
SURPASS CHEMICALS LIMITED,

FRED W. EVANS, President.

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